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Professional Builder & Remodeler

THE ONE MAGAZINE FOR THE DIVERSIFIED BUILDER

OCTOBER 1992

BEST IN AMERICAN REMODELING AWARDS

Style, Craftsmanship & Creativity...126

Exclusive Survey: Management Practices...118

The Election's Impact On Housing...12

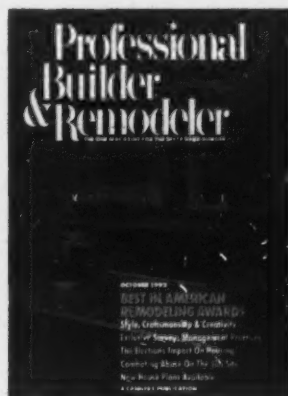
Combating Abuse On The Job Site...50

New House Plans Available...189

A CAHNERS PUBLICATION

Professional Builder & Remodeler

THE ONE MAGAZINE FOR THE DIVERSIFIED BUILDER



On The Cover

■ This remodeling in Alameda, Calif., won a Grand Award in the kitchen category of the Best In American Remodeling Awards (feature begins on page 126). The project work was by Kurt Lavenson, Design & Building, Berkeley, Calif. The architects were Andrea Walhof and Cheryl Crane of Walhof & Crane, Designers, Berkeley. Interior design was by Cheryl Crane. Photography by Alan Geller.



America's best remodeling projects: p. 126.

FEATURES

Management Professionalism: Learning Curve To Profitability

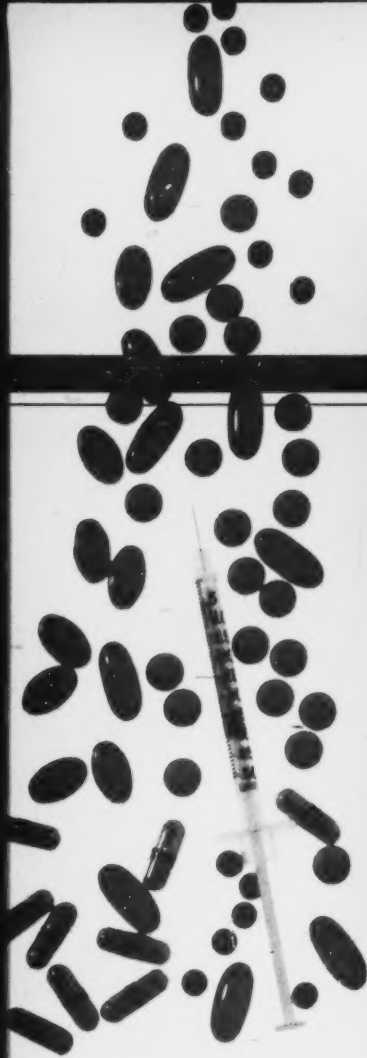
118

PB&R's exclusive survey of management practices in the housing industry shows overall improvement as well as innovation in the areas of technology, quality control and goal setting.

The Best In American Remodeling Award Winners

126

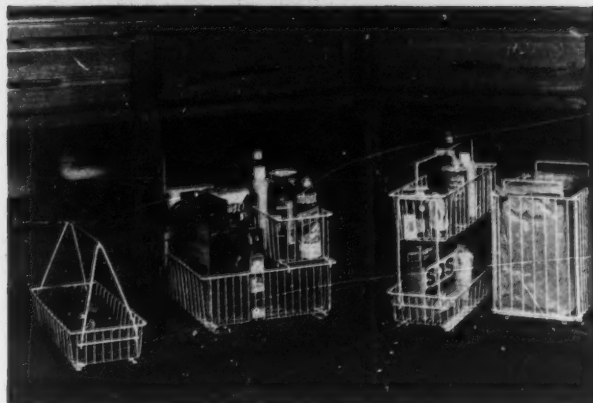
In this, PB&R's third annual remodeling awards program, we showcase a variety of jobs that awaken old structures with a design jolt. Featured here are 18 entries that typify the wide diversity of our readers.



Drugs on jobsites: p. 50.



Successful high-density design ideas: p. 21.



Recently introduced products & services: p. 164.

OCTOBER 1992

Business

■ For housing, the Bush-Clinton race pales against the potential for a shake-up in Congress: p. 12.

Markets

■ Innovative designs put 23-foot-wide detached houses at a density of nine-to-the-acre: p. 21. A seniors project is one-third leased a full year before opening: p. 22. Specialty rooms offer many creative ideas: p. 28.

Management

■ Builders and their HBAs are mounting drug-free programs to curb absenteeism, accidents and jobsite theft: p. 50. Architect Ann Capron and builder Sarah Peck believe in designs that sell: p. 58. Wayne Homes builds more than 500 houses a year: p. 62.

Marketing

■ How to market your product on a limited budget: p. 69. A remodeler finds new business helping local Realtors sell: p. 70.

Technology

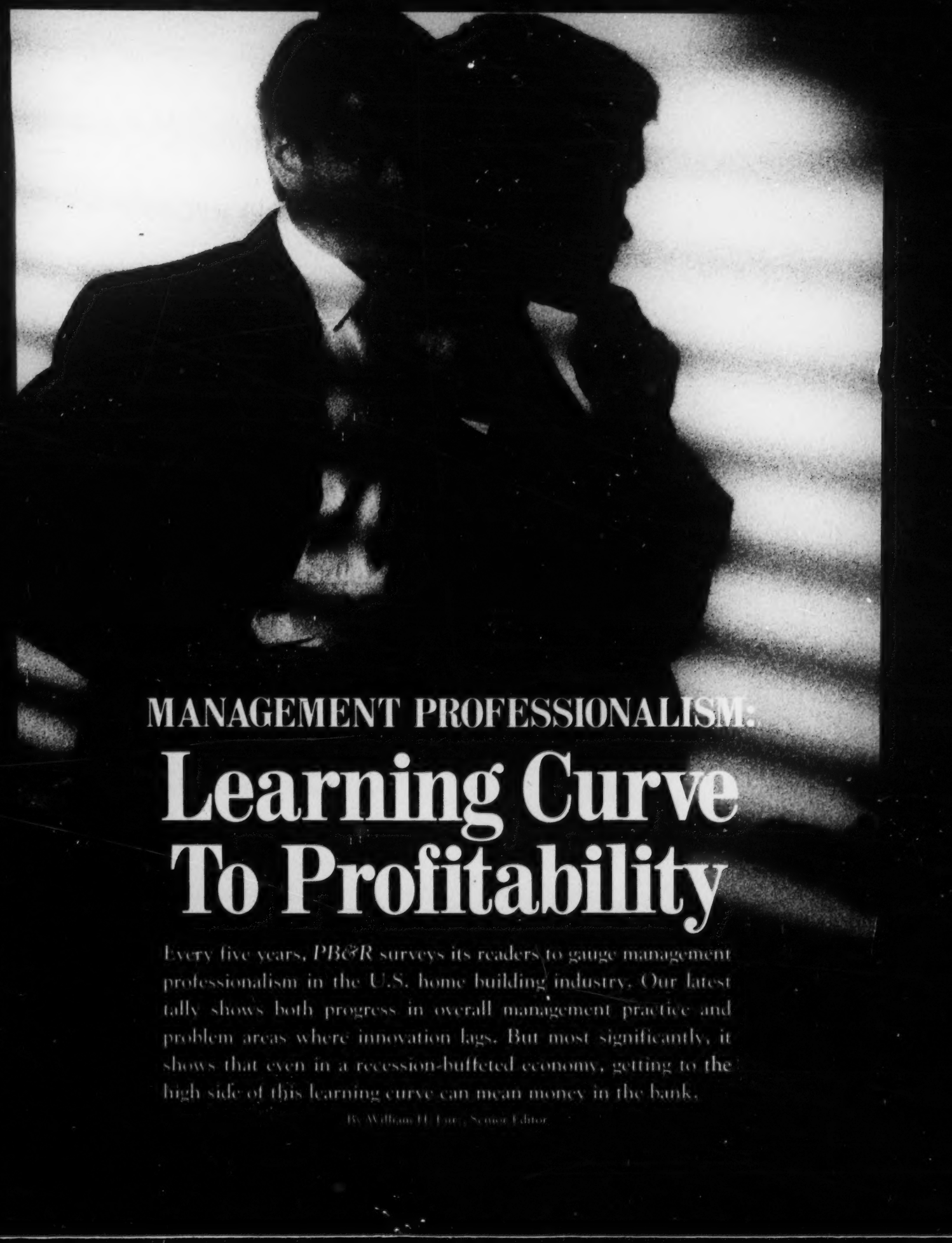
■ Radiant heating provides energy-efficiency: p. 159. HVAC cuts usage in room addition: p. 160.

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MANAGEMENT PROFESSIONALISM:

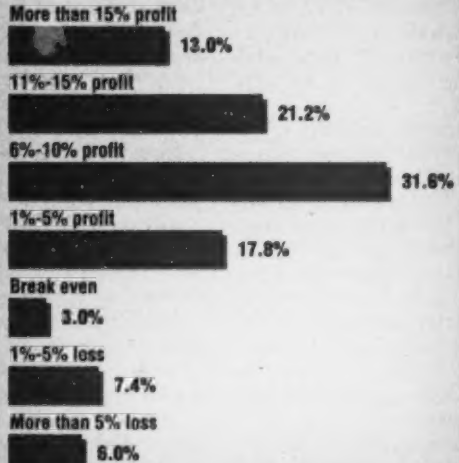
Learning Curve To Profitability

Every five years, *PB&R* surveys its readers to gauge management professionalism in the U.S. home building industry. Our latest tally shows both progress in overall management practice and problem areas where innovation lags. But most significantly, it shows that even in a recession-buffeted economy, getting to the high side of this learning curve can mean money in the bank.

By William H. Farr, Senior Editor

Sophistication Protects Profit

1991 Net Profit/Loss Of Surveyed Firms



Survey Summary

In the last five years, surveyed builders have extended their use of written policies in many areas, including accounting (50%), subcontractor relations (69%), and quality standards (62%). But sales remain a sore point. Just over a third (36%) of those responding have written policies for sales, and the percentage actually declined from the 1987 survey (38%).

□ Larger firms still tend to be most sophisticated. For example, far more have written statements of objectives. Under \$1 million in annual revenues, less than a third of respondents had such a document, while two-thirds of builders over \$15 million did. Public companies still maintain a wide gap over most private firms. For example, all publicly held firms surveyed set specific performance targets for managers. Private firms that set such targets don't top 50% until they have more than 20 employees.

□ Centralized management organization is still the norm, regardless of company size. Even among builders with annual volumes above \$15 million, 75% are centralized.

□ The PC revolution has made computerized operations virtually mandatory, regardless of company size. Compare the 1987 survey to this year's: Use of computers for general ledger increased from less than half of 1987 respondents to well over 80% in 1992, job cost accounting from less than half to three-quarters, estimating from less than a quarter to more than half. Well over 90% said they track costs of each house in a development separately. More than a third said they have *multiple* systems isolating variations.

□ Formal quality control programs are making slow inroads. In 1987, less than half of firms with fewer than 20 employees, and just over 60% of companies above that point, had such a program. This year, each of those measurements increased by only about 3%.

Largest Firms Most Sophisticated, But Margin May Be Narrowing

While larger firms still tend to be most sophisticated, small companies are narrowing the gap—and the agent of that change is the personal computer.

That conclusion jumps from analysis of PB&R's business practices survey—a representative sampling of 266 U.S. residential building companies. Even in areas that might seem beyond the reach of a computer, close scrutiny of the data hints at an impact. For instance, the types of activity builders are conducting shows broad diversification, and small builders are just as diversified as large ones—although the activities differ.

Firms with five or fewer employees are more likely to diversify into remodeling. More than 50% reported residential remodeling activity, and 24.1% said they do non-res remodeling. Meanwhile, firms with more than 20 employees reported

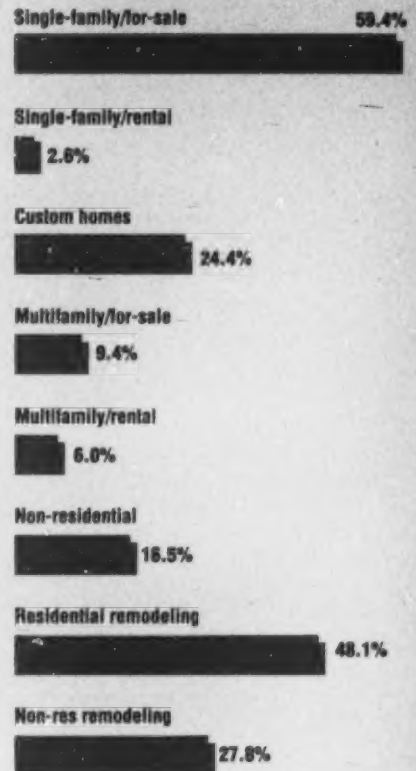
highest rates of activity in non-res. Both new construction and remodeling activity tied at 25%.

Survival may be a prime motive for diversifying, but would any firm try different activities without confidence in the ability to control costs and margins? And what is the source of that confidence?

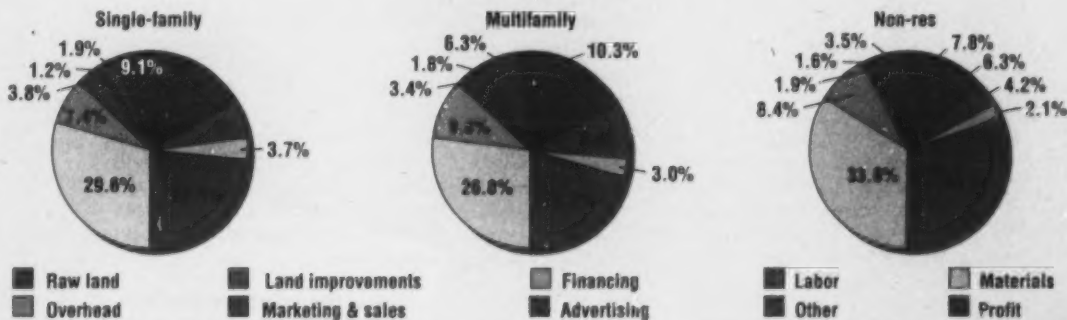
Advances in personal computers and packaged software actually have forced large firms to scramble to keep up with smaller ones.

That may explain why the largest firms are only slightly more profitable than the smallest, and mid-sized firms are the most profitable. In single-family home building, firms with less than \$1 million in annual volume reported profit margins of 9.38%. Those above \$15 million reported 9.5%. And those between \$6 million and \$15 million checked in with margins averaging 10.36%. □

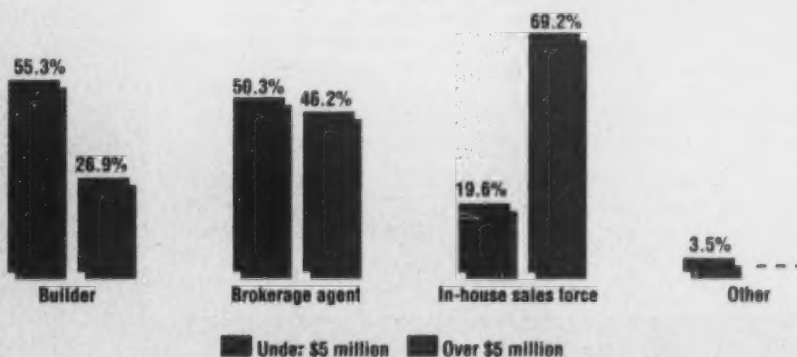
Areas Of Builder Activity



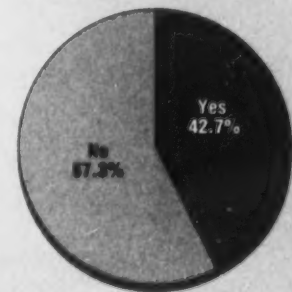
Profit Highest On Multifamily (Percent Of Final Price)



Who Sells The Homes



Privately Held Companies Planning For Continuation After Death Of Owner



Do You Have Executives Other Than Owner?

(By Size Of Firm)

Under \$1 million



\$1-\$5 million



\$5-\$15 million



Over \$15 million



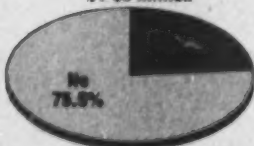
Are Replacements For Key People Being Trained?

(By Size Of Firm)

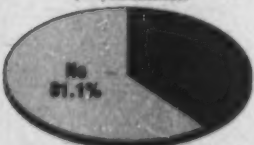
Under \$1 million



\$1-\$5 million



\$5-\$15 million



Over \$15 million



Sales: Weak Link In Management Chain

Builders surveyed generally improved—over those questioned in 1987—at planning their business operations and formalizing those plans in writing. But sales planning and management remains the industry's Achilles' heel.

The percentage of builders reporting that they maintain written policies for such areas as accounting, quality standards and subcontractor relations increased dramatically over 1987. But the percentage with written policies governing sales actually declined.

The jump in formal, written quality standards—from 47.5% in 1987 to 62.4% this year—is significant. It probably reflects builders' response to the increasing sophistication of consumers. Quality is now the watchword among consumer product marketers worldwide, and builders are finding that quality perceptions honed by auto and appli-

ance manufacturers are applied to the highest ticket item of all.

However, when we asked if the company had a *formal quality-control program*, rather than just written quality standards, the improvement from 1987 was more modest—up from 45.1% to 46.8% among firms with 6 to 20 employees, and from 63.4% to 66.7% for companies with more than 20 employees. Among the smallest firms (5 or fewer employees), formal programs actually declined from 31% in 1987 to 24.7% in 1992.

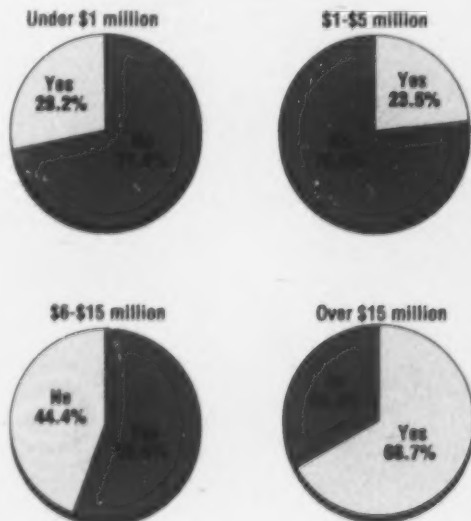
Despite the increasing emphasis on formal planning, only 11.5% of respondents said they plan company operations at least two years into the future. Even among firms with more than 20 employees, only 36.8% said they have such plans. But that may reflect the volatility of the marketplace more than absence of management foresight. □

Operations Covered By Written Policies (Percentage Of Firms)



Does Company Have A Written Statement Of Objectives?

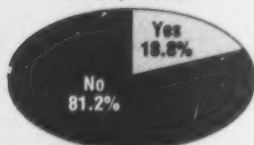
(By Size Of Firm)



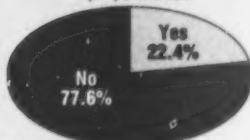
Does Company Have A Written Business Plan?

(By Size Of Firm)

Under \$1 million



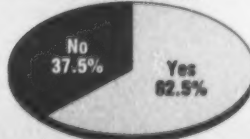
\$1-\$5 million



\$6-\$15 million



Over \$15 million



Are Company's Goals For Revenue, Cash Flow, Profit Planned For A Range Of Results?

(By Number Of Employees)



5 or less employees



6-20 employees

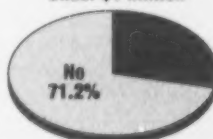


More than 20 employees

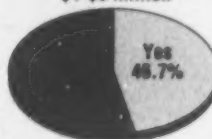
Does Company Conduct Feasibility Studies For Land, Developments, Etc.?

(By Size Of Firm)

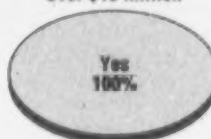
Under \$1 million



\$1-\$5 million



Over \$15 million



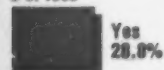
\$6-\$15 million



Are Specific Performance Targets Set For Individual Managers?

(By Number Of Employees)

5 or less



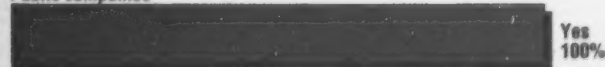
6-20 employees



More than 20 employees



Public companies



Personal Computers: Small Builders' Secret Weapon

Thanks to PCs and packaged software, small builders now have the computer power of Giants at their fingertips. While size still brings advantages, better management information is not necessarily among them. And that has changed the shape of competition.

The huge increases in builder computer use since 1987, shown right, reflect the quantum leap in computing power per dollar invested achieved over that five-year interval. Much of that has come through personal computers and packaged software bought by small builders.

For many of the applications shown, computer use by the smallest builders is greater today than it was among all builders in 1987. For example, 76.1% of today's builders with less than \$1 million in annual volume said they use computers for general ledger, 64.8% for job cost accounting, 48.9% for accounts pay-

able, 45.5% for accounts receivable, 53.4% for estimating, and 47.7% for generating management reports.

When we asked if the cost accounting system compares actual costs to estimated or budgeted costs throughout the development of a project, the gap between the smallest builders and all builders was miniscule: 71.1% of those with revenues under \$1 million said yes, compared to 74.9% for the full sample.

When we asked if the computer system provides direct construction costs within \$500 on each house sold—before that house is delivered—69.6% of firms under \$1 million in annual volume said yes, compared to 70.7% for all builders.

Clearly, in the arena of management professionalism, the playing field between large and small firms today is much closer to level than five years ago. □

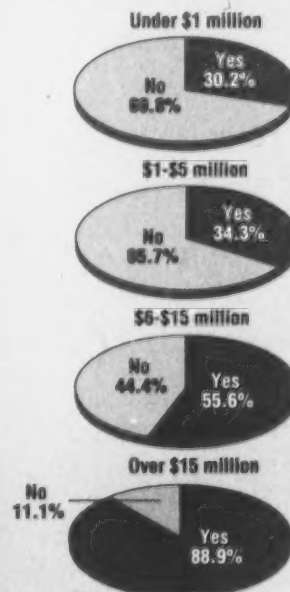
Computer Revolution Impact Most Builder Operations

(Uses Five Years Ago And Now)

	1987	1992
General ledger	43.6%	84.1%
Job cost accounting	45.4%	75.4%
Word processing	—	84.5%
Accounts payable	41.2%	67.6%
Payroll	30.4%	60.9%
Track operating costs	45.1%	53.1%
Accounts receivable	34.8%	56.5%
Estimating	24.6%	51.2%
Management reports	39.3%	54.6%
Scheduling	19.9%	26.0%

Are Written Purchase Orders Generated For All Major Items?

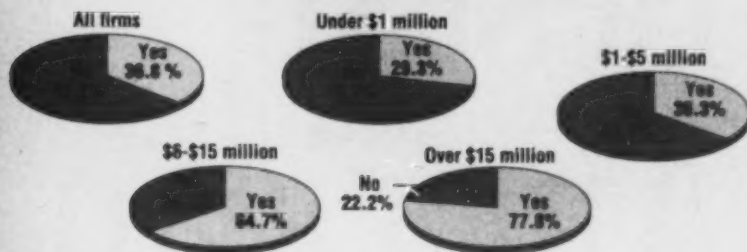
(By Size Of Firm)



Photos: Comstock

Do You Have Multiple Systems Isolating Variances From Budget?

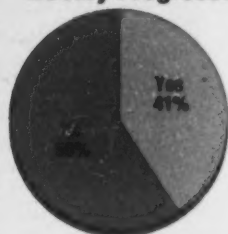
(e.g. Financial/Physical)



Are Budgeted Costs Within 5% Of Actual?

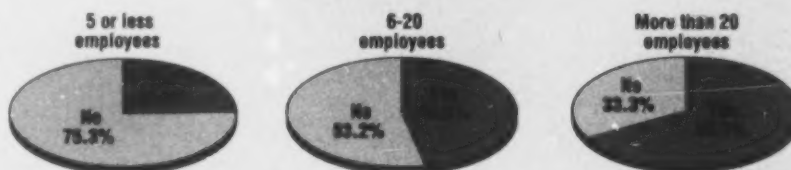


Does Scheduling System Show Actual Vs. Projected Weekly Progress?



Do You Have A Formal Quality-Control Program?

(By Number Of Employees)



Larger Firms More Likely To Use Headhunters, Written Tests In Hiring Managers

(Procedures, By Size Of Firm)

	Under \$1 million	\$1-\$5 million	\$6-\$15 million	Over \$15 million
Multiple interviews	47.5%	70.2%	80.0%	100.0%
Minimum requirements specified in advance	63.9%	40.4%	26.7%	12.5%
Outside consultants	4.9%	—	13.3%	37.5%
Psychological or aptitude testing	3.3%	3.5%	—	12.5%

Cash Tops Management Perks

(Benefits Provided Key Managers)

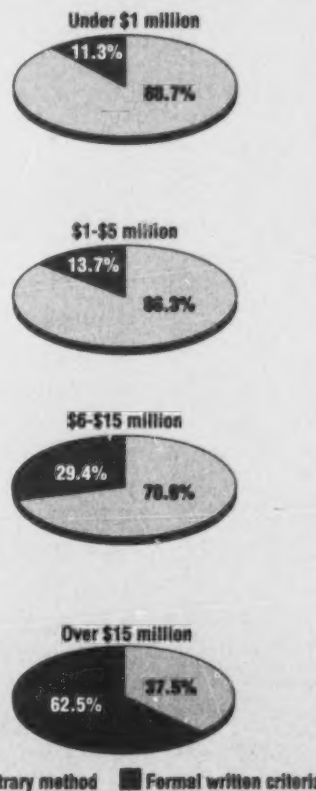
Annual cash bonuses	63.8%
Cars or allowances	60.5%
Profit sharing	25.9%
Key person life insurance	22.7%
Project participation	10.3%
Investment loans	4.3%
Housing allowances	3.2%
Stock options	2.2%
Other	17.8%

Insurance Forms Core Of Non-Management Benefits

Group health insurance	69.5%
Disability insurance	31.1%
Company-paid life insurance	31.1%
Dental plan	19.9%
Legal services plan	0.7%
Thrift plan	2.0%
Pension plan	1.3%
Stock ownership plan	13.9%
401K plan	13.9%
Other	31.1%

How Are Bonuses Determined?

(By Size Of Firm)



INDICATORS

Top Construction Markets For 1993—Atlanta, Phoenix

Top-volume construction areas should represent best opportunities for builders and remodelers.

Cahners Economics has recently released its annual special report on the "Top U.S. Construction Markets" for next year. In this report we venture an educated, informed "guess" as to what areas around the country are likely to provide the best construction opportunities—by dollar volume—in the year ahead.

New home building

We're expecting Atlanta to emerge as the most active new home construction market during 1993. Through the first six months of 1992, the estimated value of new permitted residential construction in the "Belle of the South"—almost \$1.25 billion—was greater than for any other metropolitan area in the nation. The host of the 1996 Summer Olympics wins our gold medal for 1993.

Not too far behind was Phoenix, the area we're expecting to take the silver medal in new home construction work next year. Both Phoenix and Atlanta recorded gains of 42.4%

in the value of new home construction work permitted during the first six months of 1992 when compared with cumulative values for the first half of 1991.

In fact all of our "Top 10" recorded healthy gains in permit values between 1991 and 1992, ranging from 12.1% in the Houston area to a whopping 106.3% gain in Baltimore.

Noteworthy for their absence in the Top 10—any metropolitan areas in the state of California.

Residential remodeling

Cities in the Northeast and in the industrial Midwest—areas with appreciably older housing stocks and harsher climates—fare much better on our remodeling list than on our new home building list. In fact, our Top 10 list changes very little from year-to-year even when new construction activity in some of the cities is "the pits"—such was certainly the case in Philadelphia, Boston, Long Island and New York from 1989-1991.

Growth in the value of permits issued for remodeling work through the first half of 1992 were more moderate than for the new home construction sector. Among the Top 10, seven areas re-

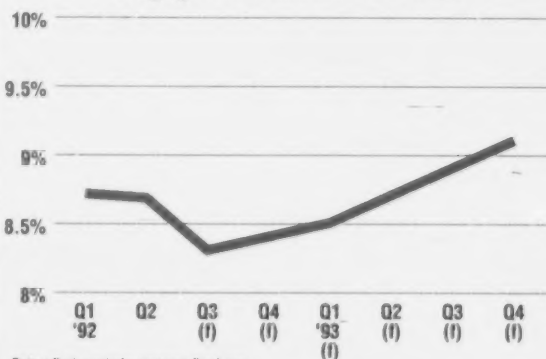
Continued on page 248.

Regional Market Conditions (Year-To-Date Trends)

	S-F Home Permit \$	Average S-F Permit Value	Remodeling Permit \$	Employment Change
New Haven	+27.7%	\$98,323	-13.8%	-1.1%
Trenton	+19.6%	\$95,441	+13.0%	-0.8%
Jacksonville	+12.5%	\$85,553	-21.0%	+0.7%
Jackson, Miss.	+35.0%	\$74,515	+32.6%	+1.1%
Oklahoma City	+33.0%	\$89,261	+1.5%	+0.8%
Cleveland	+27.1%	\$138,562	+14.7%	-1.6%
Wichita	+57.0%	\$78,355	-9.5%	-0.3%
Reno	+23.6%	\$103,892	+28.0%	+0.8%
Oakland	+64.2%	\$154,047	+10.1%	-1.4%

Sources: U.S. Departments of Commerce and Labor.

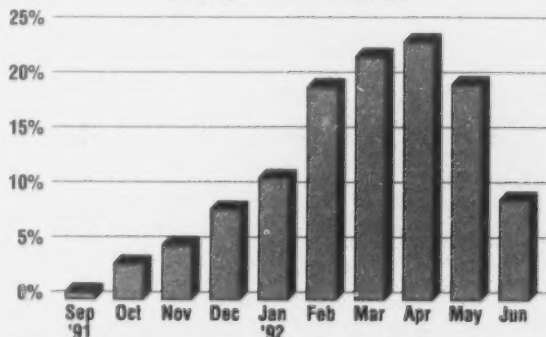
Mortgage Interest Rate Forecast



Data reflect quarterly averages, fixed-rate.

Source: Federal Home Loan Mortgage Corp. Forecast: Cahners Economics.

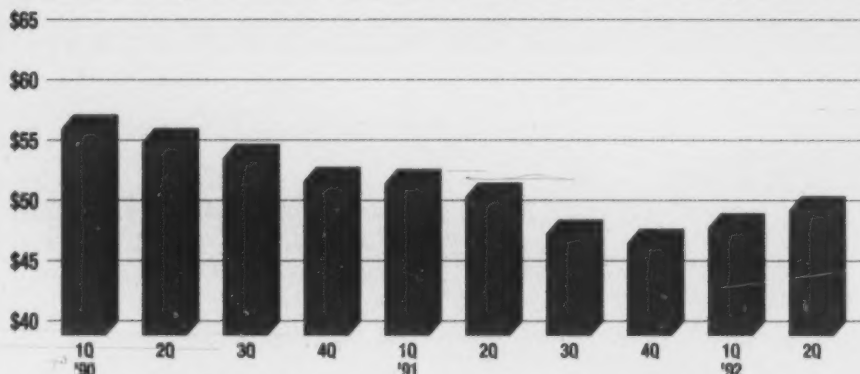
Lumber Price Trends



Data reflect % change in Producer Price Index for lumber; current month compared to same month year-earlier.

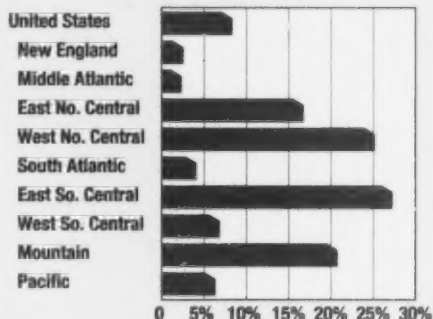
Source: U.S. Department of Labor.

Residential Improvement Value—Additions, Alterations & Replacements



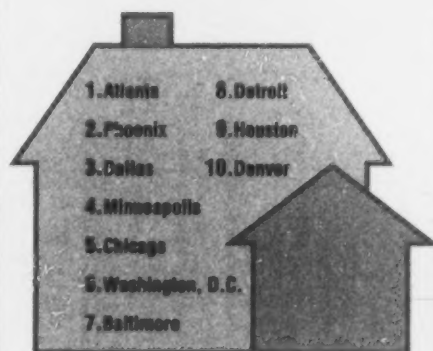
Data reflect quarterly annualized averages from the "C-30," value of construction put-in-place, billions of dollars.
Source: U.S. Department of Commerce.

Residential Remodeling Permit Value Trends (June 1992 vs. June 1991)



Source: U.S. Department of Commerce.

Top New Home Construction Markets—1993



Data ranked by value of new residential building permits, as projected by Cahners Economics. Source: Cahners Economics special report "Top U.S. Construction Markets for 1993."

Top Remodeling Markets—1993

1. Los Angeles
2. Chicago
3. Minneapolis
4. Washington, D.C.
5. Boston
6. Philadelphia
7. Detroit
8. San Francisco
9. Miami
10. Long Island



Data ranked by value of addition, alteration, & conversion permit values, as projected by Cahners Economics.
Source: Cahners Economics special report "Top U.S. Construction Markets for 1993."

Key Trends At A Glance

	Jun '92	Oct '91
Total housing starts*	1,167,000	1,085,000
New home sales*	572,000	526,000
Remodeling permit trend	+7.1%	-1.5%
Consumer confidence index**	72.6	60.1
Median new home price	\$122,500	\$122,600
Fixed-rate mortgage	8.51%	8.86%
Construction wage trend	+1.6%	+1.2%

* Seasonally adjusted annual rate.
** 1985 = 100.

'93 Market Analysis

Continued from page 247.

corded gains over the January-June 1991 totals, ranging from 2.3% in Philadelphia to 27.0% in Chicago. The declines registered by San Francisco, Los Angeles and Detroit were relatively small, but still in discouraging contrast to the 7.1% gain in remodeling permit values nationwide through the first six months of 1992.

Growth markets

Even in a sluggish market, opportunities do exist for expanding business. The Cahners Economics' "Top U.S. Construction Markets for 1993" special report offers you a glimpse not only at the largest volume areas in terms of dollar value of construction outlays, but also insights into which areas have been the dynamic, high growth areas so far in 1992.

Surely there will always be some overlap of top markets as measured by volume and top markets as measured by growth rate—indeed, this represents the best of all possible worlds. However, in assessing which markets are likely to provide the best opportunities in the year ahead, both measures—growth rates and absolute dollar value of activity—should be carefully evaluated.

Copies of the 30-page special report "Top U.S. Construction Markets for 1993" are available for \$85 from Cahners Economics. For further information, or to order your copy, contact Wendy Chambers of Cahners Economics at 1-800-445-0678 or FAX your request (Attn: Wendy Chambers) to 1-617-630-2100. □